



**CLAIMS MANAGEMENT
PERFORMANCE AUDIT**

SEPTEMBER 2012



CITY OF DURHAM
AUDIT SERVICES DEPARTMENT

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To: Audit Services Oversight Committee
From: Germaine Brewington, Director
Audit Services Department
Date: September 5, 2012
Re: Claims Management Performance Audit
(September 2012)

The Department of Audit Services completed the report on the Claims Management Performance Audit dated September 2012. The purpose of the audit was to determine the adequacy of specific components of the Risk Management and Safety Division's Claims Management Function.

This report presents the observations, results, and recommendations of the Claims Management Performance Audit (September 2012). City management partially concurs with the recommendations made. Management's response to the recommendations is included with the attached report.

The Department of Audit Services appreciates the contribution of time and other resources from employees of the Risk Management and Safety Division of the Finance Department in the completion of this audit.

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BACKGROUND INFORMATION

The Risk Management & Safety Division of the Finance Department provides claims management, supports departments in occupations safety and OSHA compliance, and coordinates occupational health services. The Division has five full time positions. Management of the Division changed in July 2010, with a new manager joining the team. This audit focuses on some components of the claims management function of the Division.

Marsh & McLennan Companies conducted a Safety and Health GAP Analysis in December 2010 to determine the status of the City of Durham risk management practices against world best practices. Based on the results of the GAP Analysis, the current Risk Manager is in the process of implementing several initiatives.

Inclusive in the full report, the Gap Analysis identified the following in regards to claims management as part of the priority action plan for the City of Durham:

“Expand incident investigation system to focus on techniques for reporting hazards, gathering complete, accurate and objective incident data used to calculate root cause and determine corrective actions. All elements should be incorporated to further examine and analyze data as a means of preventing injuries, property damage and financial losses. The primary purpose of an accident investigation is to prevent future occurrences, which may reveal more important lessons that will assist in preventing a recurrence.”

Claims processed at the City fall under three major categories. They are:

- General Liability
- Workers’ Compensation
- Auto Liability

BACKGROUND INFORMATION

Table 1: Number of Claims by Type of Claim

Number of Liability Claims Incurred by Type of Claim					
Type of Claim	FY12*	FY11	FY10	FY09	FY08
Auto	83	57	79	64	78
General	156	157	149	141	123
Workers Comp	296	251	310	291	461
TOTAL	535	465	538	496	662

*FY 2012 data is as of May 2012

Workers' compensation claims account for 55% of the total number of claims processed.

The Risk Management and Safety Division has standard operating procedures (SOPs) that govern the claims process. These SOPs are:

- *S-206-On-The-Job Accident Report*
- *S-201- Safety Program*

The Risk Management and Safety Division staff do not process claims in-house. The City of Durham has entered into contracts with two third party administrators (TPA): Brentwood Services Administrators, Inc. and North Carolina League of Municipalities. A Third Party Administrator (TPA) is an organization that processes claims and performs other administrative services in accordance with a service contract.

EXECUTIVE SUMMARY

Purpose

The purpose of the audit was to determine the adequacy of specific components of the Risk Management and Safety Division's claims management function.

We conducted this performance audit in accordance with generally accepted governmental auditing standards. Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Results in Brief

Areas where processes are effective:

- Overall procedures for reporting incidents and making claims are adequate and functioning as intended.
- Opportunities for improvements were identified by the staff in the area of investigating near miss incidents.
- Adequate monitoring oversight by the staff exists over work performed by the TPA.
- Adequate controls exist to ensure adequacy of compensation payments by the TPA.

Areas for improvement include:

- Performing in depth claims data analysis on a regular basis to manage trends and focus loss prevention efforts.
- Sharing adequate information with departments that will enable them to undertake loss prevention measures.
- Developing standard operating procedures to provide guidance to staff of the procedures to follow during the transition to full implementation of the programs.

Opportunities for improvement were also identified in the implementation of initiatives undertaken by the Risk Manager.

OBJECTIVES, SCOPE AND METHODOLOGY

Objectives

The objectives of the audit were to:

- Determine if procedures for reporting incidents and making claims are adequate and functioning as intended;
- Determine if proper monitoring oversight exists over work performed by the Third Party Administrators(TPA);
- Determine if adequate controls exist to ensure accuracy of compensation payments; and
- Verify that the Risk Management and Safety Division staff undertake loss prevention measures as a result of claims identified and processed.

Scope

The scope of the audit included all current practices of specific claims management functions of the Risk Management and Safety Division (Risk Management) as they relate to the specific activities identified in the objectives.

Methodology

In order to achieve the objectives of the engagement, audit staff performed the following steps and procedures:

1. Obtained and reviewed policies/procedures pertaining to the claims management function;
2. Documented the incident and claims reporting process as established by Risk Management staff;
3. Selected a sample of departments based on significant claims data and performed the following:
 - Documented the incidents and claim reporting process at the selected departments
 - Interviewed employees and supervisors that were involved in the claims reporting process;
4. Selected a judgmental sample of 150 cases and reviewed the Employee Injury/Illness Reports to determine if the form was filled out completely and if appropriate information was provided on the forms;

OBJECTIVES, SCOPE AND METHODOLOGY

5. Selected a judgmental sample of 100 claims and verified timely reporting of the incidents based on established reporting standards;
6. Analyzed the reporting process for near miss incidents and accidents;
7. Obtained and reviewed contracts with TPAs;
8. Documented the roles and responsibilities of the TPAs;
9. Determined if Risk Management staff monitor the TPAs' performance to ensure compliance with the contracts;
10. Verified if Risk Management staff received/had access to adequate information from the TPA for investigations performed;
11. Documented the use of Risk Master;
12. Reconciled reports provided by the TPA to the Risk Master Database;
13. Documented the appeals process to determine adequacy;
14. Verified controls to ensure that all payments processed are for claims substantiated;
15. Selected a sample of employees that received workers' compensation and verified that they did not receive their regular pay check during the time they were receiving workers' compensation;
16. Obtained a sample of check registers and verified that checks issued were for valid claims;
17. Reconciled transactions processed through the bank to the general ledger;

OBJECTIVES, SCOPE AND METHODOLOGY

18. Interviewed safety officers in charge of investigations to determine cause and corrective actions;
19. Determined whether training to investigate accidents is adequate;
20. Reviewed analysis performed by Risk Management staff and any actions taken as a result of that analysis;
21. Reviewed information shared with the departments to aid in loss prevention measures and determined if adequate;
22. Interviewed the members of the Loss Prevention Committee; and

During the audit, staff also maintained awareness to the potential existence of fraud.

AUDIT RESULTS

Activities that are being carried out effectively include:

- Procedures for reporting incidents and making claims are functioning as intended.
 - Audit staff interviewed employees in five departments and the employees/supervisors who were interviewed had a good understanding of the process for reporting claims. In addition, audit staff reviewed 150 Employee Injury/Illness Reports and appropriate information was reported on 97% of the forms.
 - Standard operating procedures exist for reporting claims. The Risk Management staff have developed standard operating procedures to establish reporting requirements for on the job injuries and accidents and to convey this information to all employees. Policy S 206, *On the Job Accident Reporting and Procedures* outlines this guidance.
- Adequate monitoring oversight exists over work performed by the Third Party Administrator. The Risk Management staff receive adequate information for individual cases from the TPAs to monitor the results of the investigation process.
- Adequate controls exist to ensure accuracy of the compensation payments made by the TPAs.
 - The Risk Management staff have an adequate process to notify the Payroll Division staff when an employee is receiving workers' compensation.
 - Adequate controls exist to ensure payments processed are for claims substantiated. Audit staff sampled 100 checks and verified that checks were processed for substantiated claims. No exceptions were noted.

AUDIT RESULTS

- The Risk Manager has established the framework for an Accident Investigation Program. As part of the Program, departments will create an Accident Investigation Team charged with investigating all accidents/near miss incidents. Risk Management staff have developed a standardized Accident/Near Miss Investigation Report that will be used by the Accident Investigation Team to report the results of all investigations.

Areas for improvement:

In depth claims data analysis is not being performed on a regular basis to be able to manage trends and to focus loss prevention efforts.

Pivot tables to provide workers' compensation information by body part, by department, number of claims and cost was prepared for data from FY 2007 to FY 2011. However, documentation did not exist to support whether Risk Management staff analyzed the data to identify trends or implement prevention measures.

Analyzing claims data can help Risk Management staff and departments focus training efforts, inspections, resources, and safety emphasis programs on areas with the greatest need. Examining claims data to identify trends in the following areas can help channel resources in the right direction:

- Cause of injury;
- Commonalities with injury types and effected body parts;
- Departments where injuries seem to be occurring at a higher rate;
- Specific pieces of machines or equipment; contributing to a greater number of injuries.

AUDIT RESULTS

Information shared with departments to undertake loss prevention measures is not adequate.

A Loss Prevention Safety Committee meets on a monthly basis to evaluate the effectiveness of the Safety Program according to Policy S 201, "*Safety Program*". Audit staff attended a meeting and interviewed three members of this Committee. At present, as it relates to claims management data, a Significance of Loss Sheet is provided to the departments that are members of the Committee. This sheet includes the following data:

- The number of liability claims incurred by type of claims (Auto, General Liability and Workers Compensation);
- Cost of liability claims by type and department; and
- Number of disabling injuries, lost days, restricted days and hours worked because of employee injuries by department.

In addition to the information shared with this Committee, the Risk Management staff provide information to Directors, which includes the:

- Department "Accident" Work Order Activity Report that identifies the total pieces of equipment with work orders for repair and the cost of the work orders; and
- Accident Investigation Report that outlines the root cause and corrective action proposed for accidents investigated by the Risk Management Safety officers; and whether or not the corrective action was completed.

The data shared with the departments as outlined above is not adequate for the individual departments to strategically identify and correct problems regarding safety and injuries. Sharing detailed analytical information and trend analysis based on body part, cause of injury, etc. can help the departments focus on trends and areas of increasing risks. The departments at present only see claims on an individual basis and not in the aggregate.

AUDIT RESULTS

Audit staff interviewed three members of the Loss Prevention Safety Committee. Members interviewed had concerns about the effectiveness of the meetings and the information provided. One member did not feel that the sharing of information was sufficient for them to undertake loss prevention measures. Two of the members raised concerns about the lack of senior management presence at the meetings, which can limit the efforts to implement changes recommended by the Committee.

The Safety and Health Gap Analysis Report recommended that risk management develop, publish and distribute performance metrics that drive improvement; including but not limited to claims data and incident rates. One of the key metrics listed was lag time-the time difference from when a claim occurred to when it was reported.

According to Policy S 206, *“On the Job Accident Reporting and Procedures”* employees must report any on the job injury or illness to Risk Management staff within 24 hours of the accident using the Employee Injury/Illness Report. Audit staff judgmentally selected 100 claims and compared the date the accident was reported to the date the incident occurred. Approximately 64% of the claims were reported in 1 day, approximately 15% of claims were reported in 2-3 days, and approximately 18% of the claims were reported after 4 days or more. Audit staff could not identify the reporting period for 3% of the claims. Timely reporting of claims is important, as facts become vague as time passes. Risk Management staff do not report this information to the departments at present.

Opportunities for improvement have been identified in the Accident Investigation Program as it relates to investigating near miss incidents.

Currently the framework for the Accident Investigation Program calls for investigating all near miss incidents. A detailed investigation for all near miss incidents is an expensive proposition. A risk-based approach to near miss incidents should be considered. A mechanism could be implemented to filter the reports so that only high-value disclosures are passed on for further detailed analysis. Risk-based pre-analysis screening with predetermined criteria of all the reported near miss incidents is an ideal way to deal with a large volume of activity. This risk-based approach will maintain the quality of the investigation process.

The Risk Management and Safety Division does not reconcile information in RISKMASTER to information provided by the TPA

At present Risk Management staff use the RISKMASTER® Accelerator, which is a risk and claims management software application to track claims. A claim is entered into RISKMASTER when initially received by the staff of the Division of Risk Management and Safety. Update to the information in RISKMASTER occurs as they receive additional information from the TPA. The information in RISKMASTER should mirror the information provided by the TPA. The information in RISKMASTER is not reconciled to the TPA information. Given the manual entry process, potential for error exists. Internally the staff relies on RISKMASTER Data to perform analysis. Therefore, reconciliation to the TPA information is prudent. Audit staff reconciled information in RISKMASTER to the TPA's information. For injuries that occurred in FY 2012, there was approximately a 12% difference in the amount paid according to the TPA versus the amount paid according to RISKMASTER. For injuries that occurred in FY 2011, there was approximately a 2% difference in the amount paid according to the TPA versus the amount paid according to RISKMASTER. The Risk Manager is in the process of collaborating with the Department of Technology Solutions to explore the feasibility of electronically updating information in

AUDIT RESULTS

RISKMASTER based on the TPA information. According to the Finance Director, the implementation is scheduled for October, 2012. The City has also just recently allocated resources to upgrade the system.

The staff do not appear to have a clear understanding of the procedures to follow until the Accident Investigation Program is fully implemented.

While the framework has been established for the Accident Investigation Program, implementation is in its initial stages. During this transition phase until the program is fully implemented, the staff do not appear to have a clear understanding of what is required of them. They are using different versions of the Accident/Near Miss Investigation Report to complete the investigations. They are unclear as to the timeliness for completing an investigation and turning in the report to the Risk Manager. Internal standard operating procedures can provide guidance to the Risk Management staff that will help them efficiently perform their duties during the implementation phase.

Audit Staff identified opportunities for improvement in the implementation of initiatives undertaken by the Risk Manager.

There are many initiatives that the Risk Management staff want to either implement or are currently implementing. Given the limited resources available to the Division, lack of prioritization of initiatives could lead to inefficient utilization of resources. For priority initiatives, a detailed work plan would provide common understanding among staff regardless of the level of involvement or development. A work plan outlining the timeline of actions or activities does not exist. The lack of a detailed work plan could result in inefficiencies in the implementation process.

Conclusion

The Risk Management and Safety Division staff have adequately communicated the process for reporting claims to the appropriate parties and they monitor that process effectively to ensure its propriety. The staff also ensure that the third party administrators are performing their responsibilities per the contract. The staff could add value to the organization by performing regular in depth claims data analysis. The analysis and synthesis of this data would provide the staff with meaningful information that could give them better insights into trends and help focus loss prevention efforts. Communicating adequate information to the departments can aid in focusing loss prevention efforts at the departmental level. Finally, given the size of the Risk Management and Safety Division staff, the development of internal operating procedures and a prioritization mechanism for the current initiatives could aid the staff in efficiently utilizing their limited resources for claims management measures as well as other activities.

RECOMMENDATIONS

Recommendation 1

The Division of Risk Management should perform detailed analysis of claims data to identify trends and undertake loss prevention measures based on the analysis on a **regular** basis.

The Division should disseminate trend analysis information with recommendations for an action plan to the departments quarterly. They should solicit input from the departments to determine what information they want to receive on a regular basis that will help them focus their loss prevention efforts.

Recommendation 2

The Division of Risk Management should consider incorporating a risk based approach with pre-analysis screening and predetermined criteria to investigate near miss incidents.

Recommendation 3

The Division of Risk Management should prioritize initiatives and develop a detailed work plan outlining timelines of actions or activities based on available resources.

Recommendation 4

The Division of Risk Management should develop written internal standard operating procedures that provide guidance to Risk Management staff in performing their duties. The internal procedures should also include performing a performance evaluation on the TPAs.

RECOMMENDATIONS

Recommendation 5

The Division of Risk Management and Safety should continue its efforts with the Department of Technology Solutions to achieve electronic data interchange between the RISKMASTER and the TPA system. In the interim, the Risk Management staff should compare for completeness, information in RISKMASTER to the information provided by the TPA. For variances deemed material, staff should reconcile the differences until electronic transfer of data into RISKMASTER is accomplished.

MANAGEMENT'S RESPONSE

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To: Germaine F. Brewington, Director of Audit Services
From: David Boyd, Finance Director
Ann-Marie Sharpe, Risk Manager
Date: October 3, 2012
Re: Management's Response
Claims Management Performance Audit
(September 2012)

The following is the management's response to the Claims Management Performance Audit dated September 2012

Recommendation 1:

The Division of Risk Management should perform detailed analysis of claims data to identify trends and undertake loss prevention measures based on the analysis on a **regular** basis.

The Division should disseminate trend analysis information with recommendations for an action plan to the departments quarterly. They should solicit input from the departments to determine what information they want to receive on a regular basis that will help them focus their loss prevention efforts.

Management's Response:

We concur. Management is in agreement with the recommendation. Risk Management, as part of its normal course of business, does perform detailed analysis of claims data and uses that information to make recommendations to departments about training and loss control activities. Prior to the audit, we had independently identified the need to enhance our current efforts in this area and to provide more detailed and timely data to operating departments. As such, we had made steps to upgrade our Risk Management Information System (RMIS) software in order to facilitate these efforts. This upgrade is scheduled to begin this month and once completed should facilitate these efforts. It is also



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relevant to point out that Risk Management has always been responsive to departments when they have requested loss data on an ad hoc basis in the past.

Implementation Date: November 2012 (barring any unforeseen software upgrade problems)

Recommendation 2:

The Division of Risk Management should consider incorporating a risk based approach with pre-analysis screening and predetermined criteria to investigate near miss incidents.

Management's Response:

We concur. Management is in full agreement with this recommendation. In addition, we believe the new Accident Investigation Program that has been implemented across all departments will facilitate these efforts. All activities within Risk Management are based upon an evaluation of the facts surrounding each incident prior to committing any resources. It is important to point out that the identification of "near-miss" incidents within the Accident Investigation Program is ancillary to the primary goal of determining the cause of any actual accidents and preventing future similar events. We recognize that it will be very difficult for employees to be able to recognize and report when a "near-miss" has occurred, but upon identification of such an event, an investigation commensurate with the relative risk will be considered.

Implementation Date: Complete

Recommendation 3:

The Division of Risk Management should prioritize initiatives and develop a detailed work plan outlining timelines of actions or activities based on available resources.

Management's Response:

We concur. Management is in full agreement with the recommendation.

Implementation Date: November 2012

Recommendation 4:

The Division of Risk Management should develop written internal standard operating procedures that provide guidance to Risk Management staff in performing their duties. The internal procedures should include performing a performance evaluation of the TPAs.

Management's Response:

We partially concur. Management is in agreement with a portion of the recommendation. Management agrees with the recommendation that written internal standard operating procedures should be developed, however implementation may need to be pushed out for some time. Prioritization of very limited resources in the division may push this activity behind other activities currently underway in the division. Due to the almost daily interaction between staff and both TPA's we believe that we have continuous opportunities to evaluate their performance and to address deficiencies "real-time". We believe that our current practices are sufficient to identify any deficiencies on the part of either TPA in a timely manner.

Implementation Date: Written internal procedures by June 30, 2013

Recommendation 5:

The Division of Risk Management and Safety should continue its efforts with the Department of Technology Solutions to achieve electronic data interchange between the RISKMASTER and the TPA system. In the interim, the Risk Management staff should compare for completeness, information in RISKMASTER to the information provided by the TPA. For variances deemed material, staff should reconcile the differences until electronic transfer of data into RISKMASTER is accomplished.

Management's Response:

We partially concur. Management is in agreement with a portion of the recommendation. Prior to the audit, the Risk Management Division had identified that the then current system of duplicate manual entry into the RISKMASTER system was inefficient and afforded opportunity for data entry errors. As such, the planned RMIS software upgrade and related enhancements to the system will eliminate the need for data entry and will enable the RMIS to interface directly with the TPA's system. We are in agreement that we should finalize the implementation. Recognizing that our current database may not be 100% accurate, we believe it to be sufficient to meet our current needs until such time that the new system comes on line in November. The RMIS system is not linked to, or the source of, any financial statement data or the singular source of historical claims data and we believe that the cost of the resources necessary for this activity would not provide a commensurate value. In the event that any material differences are identified in the future they will be investigated if they are determined to be material.

Implementation Date: RMIS upgrade by November 2012 (barring any unforeseen software upgrade problems)